9/11/85 B5350-2

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 9, 1985 VOLUME XXII, NUMBER 31

As The Expansion Matures . . .

On the surface, recent economic statistics still seem to point to a continuing business expansion in the current quarter, albeit at a modest rate. The index of leading economic indicators has risen for three consecutive months, the housing market is improving modestly, employment and incomes are still rising, and the inflation rate remains comfortably below three percent. If the economy can be assumed to be still growing, then September marks the 34th month of this expansion—a significant milestone—equal to the average length of previous postwar peacetime recoveries.

This does not mean that the current expansion has necessarily reached its upper limit. Past peacetime recoveries have ranged from as short as 12 months to as long as 58 months. Nevertheless, it indicates the maturing of this cycle from an energetic youthful stage to a more subdued middle age, a period when susceptibility to a variety of economic ills increases. And there are many problems around. One of the most debilitating threats to the current expansion comes from the protracted malaise in the manufacturing sector. In turn, this reflects, to a large extent, the damage done by the strength of the dollar to the competitiveness of many U.S. manufacturing industries in both domestic and foreign markets.

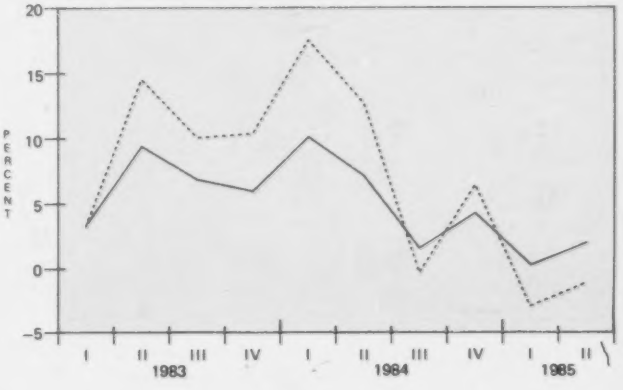
The erosion of U.S. competitiveness resulted both in reduced exports and stepped-up imports, opening a rather sizable gap in our trade accounts. From a global trade deficit of less than $36 billion in 1980, the excess of imports over exports soared to more than $123 billion in 1984 and is expected to reach $140 billion or more this year. The enormous drag of the widening net export deficit on overall growth came largely at the expense of our industrial sector.

. . . The Malaise In Manufacturing . . .

Fierce competition from imports has also forced American manufacturers to fight to retain domestic market share. As a consequence, many companies found they could not raise prices to maintain profit margins as they used to do. Not surprisingly, profitability throughout American basic industries, from textiles and chemicals to forest products and heavy machinery, has been disappointing.

According to a recent study, the climb in the dollar's external value and its damaging effects on the competitive position of U.S. manufacturing was responsible for a 2.3 percent reduction in real GNP in the first year of recovery alone. If the dollar had remained stable, industrial production in the U.S. would have been 5.3 percent higher and there would have been a million additional jobs. While more than nine million new nonfarm jobs were created since the recovery began at the end of 1982, the goods-producing sector gained only two million of these new positions. In fact, total employment in the goods-producing sector, with manufacturing industries accounting for 80 percent of the jobs, remains 6.8 percent below its 1979 peak level.

GROWTH IN REAL GNP (LINE) VS. GROWTH
IN REAL GOODS COMPONENT OF GNP (DOT)
<QUARTER-OVER-QUARTER PERCENT CHANGE AT ANNUAL RATES>



The pattern of real GNP growth in this recovery seems to reflect the performance of the goods-producing sector. During the first six quarters of this recovery, output of goods rose at a dramatic 11.4 percent average annual rate, and real GNP growth rose at a sizzling 7.1 percent clip. However in the past four quarters, goods production has edged up only at a scant 0.5 percent pace and real GNP growth averaged a modest two percent annual rate (see chart).

Although service industries accounted for 77 percent of all new jobs generated during this expansion, their contribution to output growth pales by

Copyright 1985
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

comparison with the goods-producing sector. During the first six quarters of the expansion, service output rose at an average annual rate of only two percent, followed by an average rise of 3.1 percent in the last four quarters. While the source of growth in real GNP has shifted from manufacturing to services in the past year, the service sector has failed to offset the slowdown in output resulting from the lackluster industrial sector.

. . . Spills Over To Other Sectors

Such a performance calls into serious question the often-expressed view that weakness in the manufacturing sector would not affect overall economic growth because of the rapid growth in employment in service industries. Since last January, the manufacturing sector has lost 212,000 jobs. Although this decline was more than offset by the increase of more than 600,000 service jobs, it is questionable whether service employment can continue to grow so rapidly.

For one thing, while only 25 percent of all nonfarm employees are engaged in goods-producing activities, their contribution to total output still amounts to almost 50 percent. No doubt manufacturing activity produces more output per worker than do other business activities. Manufacturing wages are higher than the average wage for service-sector jobs. For example, factory workers earned, on average, $9.20 per hour in 1984, while service employees were compensated at an average rate of only $7.60. As a result, shrinking employment opportunities

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/4/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.355	+ 2.648	+17.720
Loans to Depository Inst.	1.692	+ .596	– 6.315
Float	.545	+ .397	+ .163
Total Reserve Bank Credit	193.862	+ 3.975	+15.619
Treasury Deposits with Federal Reserve Banks	3.339	+ .903	– .801
Currency in Circulation	188.755	+ 1.510	+11.723
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	127.611	+ 3.552	+ 6.475
	8/28/85		
Member Bank Reserves:			
Total Reserves Held	42.384	– .295	+ 5.080
Excess (Deficiency)	.932	+ .189	+ .255
Net Free Reserves	.454	+ .192	+ .738
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (8/26/85)	608.4	+ 16.0‡	+ 10.2‡
M2 (July '85)	2,490.4	+ 10.4	+ 9.2
M3 (July '85)	3,113.9	+ 7.5	+ 8.8
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 9/6/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.22%	7.40%	7.60%
* Federal Agencies	8.30	8.36	9.30
* Municipal Notes–High Grade (46% Taxable Equivalent)	9.44	9.63	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.95	8.13	8.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.60%	Oct.	7.85%
15- 29 days	7.60	Nov.	7.85
30- 59 days	7.80	Dec.	7.85
60- 89 days	7.85	Jan.	7.85
90-179 days	7.88	Feb.	7.85
180-239 days	7.93	Mar.	7.86
240-270 days	7.90		

‡ Industrial Paper–Prime		† Federal Funds Effective Rate	7.70%
30- 89 days	7.70%		
90-120 days	7.75		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,855	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,672	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	2.0	0.3	7.1
Change in Consumer Prices*	Jul '85	2.4%	2.4%	3.6%
Change in Producer Prices*	Jul '85	3.6%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons) †	Aug '85n	107,172	106,862	105,148
Unemployment as % of Civilian Labor Force†	Aug '85n	7.0%	7.3%	7.5%
Personal Income*	Jul '85	$ 3,189	$ 3,176	$ 3,028
Leading Indicators Composite Index (1967=100)†	Jul '85	168.7	168.0	163.9
Industrial Production Index (1977=100)\†	Jul '85	124.9	124.7	123.2
Net Change in Consumer Installment Credit †	Jun '85	$ 6.79	$ 9.04	$ 7.08
U.S. Merchandise Trade Balance †	Jul '85	–$ 10.51	–$ 13.42	–$ 13.77
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	Jul '85	1,654	1,694	1,730
New Construction Expenditures*	Jul '85n	$ 349.5	$ 345.4r	$ 319.1
Total Business Inventories †	Jun '85	$ 580.1	$ 577.8	$ 552.4
Total Business Sales †	Jun '85	$ 419.2	$ 428.3	$ 414.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

in the industrial sector have forced people to accept service jobs, some of which tend to be lower paying and less productive.

For another, the continuing growth in service jobs depends to a large degree on the well-being of the industrial sector. Those who believe that the service industries are largely immune to economic slowdowns may soon be disappointed. The majority of service industries provide their output to the manufacturing sector, and the decline in manufacturing may soon spill over to other sectors of the economy affecting companies that supply and service manufacturing. Notwithstanding August's jump in manufacturing employment of 37,000, the recent announcements of reductions in white-collar positions by a number of companies in manufacturing industries could depress these figures come September. In addition, a more competitive environment created by the deregulation of many service industries—from finance to communications—is forcing a number of service companies to take widespread cost-cutting steps including personnel layoffs.

Perhaps the most striking setback has emerged in the high-technology sector which at one time was believed to be largely immune to foreign competition and to be a panacea for the declining smokestack regions. From silicon chip manufacturers to computer producers, major retrenchments involving management shakeups, layoffs of workers and plant closings are now taking place. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/21/85)	156,065	+ 635	– 2,484
New York City (8/28/85)	32,220	– 305	– 2,874
Commercial Paper (8/28/85)	271,498	– 513	+49,914

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/85)	251,139	– 720	+ 6,247
New York City (8/28/85)	59,703	– 67	– 4,019

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/85)	684,493	+ 5,520	+ 63,956
New York City (8/28/85)	149,620	– 3,564	+ 12,864

Financial Markets

	Friday 9/6/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.47%	+ .11	– 3.53
180-Day Bills†	7.79	+ .12	– 3.66
Longest Bills†	8.18	+ .17	– 3.72
Recent Issues:			
8⅞s 8/31/87	9.11	+ .15	
9⅝s 6/30/89	9.79	+ .22	
10½s 8/15/95	10.48	+ .20	
10⅝s 8/15/15	10.72	+ .24	
Municipals:			
Bond Buyer–20 Bond Index* (9/5/85)	9.07%	– .02	– 1.11
Blue List Total ($ Million)	$1,770	– $ 9	+ $ 174
30-Day Visible Supply ($ Million)	$4,474	+ $958	+ $ 785
Total	$6,244	+ $949	+ $ 959
Corporates:			
Moody's Aa Composite (9/5/85)	11.35%	+ .05	– 2.07
30-Day Visible Supply ($ Million)	$2,290	– $350	+ $1,640
Stocks:			
Dow-Jones Averages:			
Industrials	1,335.69	+ 1.68	+ 128.31
Transportation	677.55	– 13.11	+ 170.14
Utilities	159.16	– .51	+ 30.06
65 Stocks	551.53	– 2.84	+ 84.81
Standard and Poor's 500 Stocks	188.24	– .39	+ 23.87
N.Y.S.E. Composite Index	109.05	– .34	+ 14.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	89,163	+ 7,455	+ 12,108

* 46% Taxable equivalent 16.80%.

† Bond equivalent.

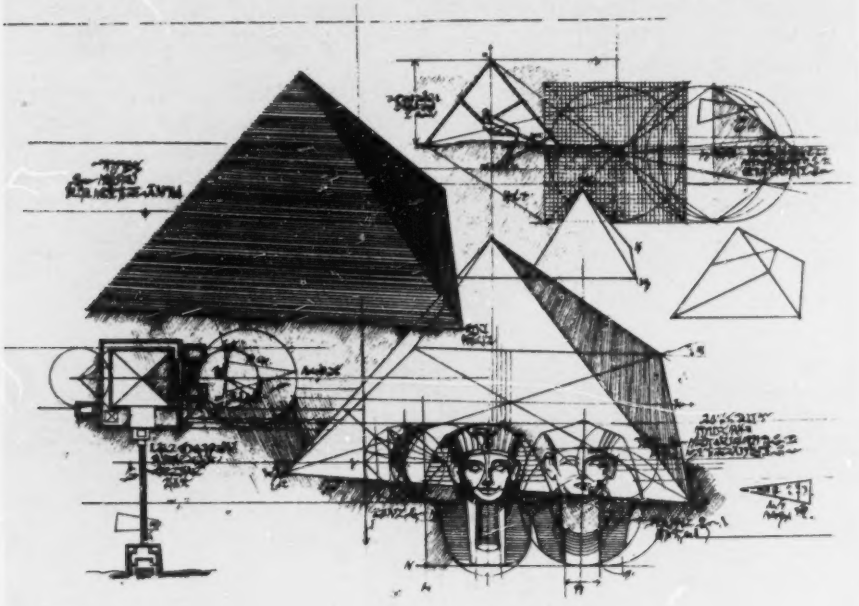
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/6/85	Week Ago
Overnight	7.63%	7.63%
1 month	8.00	7.88
3 month	8.19	8.00
6 month	8.38	8.13
1 year	8.75	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.15%	9.90%
Long Term (7 to 15 yrs.)	10.60	10.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/6/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01702	58.7500
Canada	.7291	1.3716
Denmark	.09521	10.5030
France	.1126	8.8800
Germany	.3440	2.9070
Italy	.0005167	1935.50
Japan	.004127	242.33
Mexico	.002869	348.50
Netherlands	.3059	3.2695
Switzerland	.4181	2.3915
U.K.	1.3365	.7482

INNOVATIVE PUBLIC PROJECTS REQUIRE INNOVATIVE PUBLIC FINANCING



THE FINANCIAL SOURCE℠

is an acknowledged leader in innovative public financing.

Though Manufacturers Hanover Trust did not finance the pyramids, our experienced team of public finance experts approaches each and every project as though it had monumental importance. Because to the people involved—it does.

The result is that every type of issuer, from state authorities to local agencies, from seasoned issuers to first time borrowers, from corporate giants to private companies will work with top professionals who bring years of experience to their particular situation.

And, because the Public Finance Department is backed by the worldwide resources of Manufacturers Hanover, we can manage the entire tax-free municipal finance process from the initial planning and structuring of an issue, to pricing and syndication, right through and including total after-market support.

For innovative solutions to complex problems, backed by the experienced senior-level professionals who put it all together, consider the source.® For more information call Park Benjamin, Senior Vice President at (212) 286-2482.

Public Finance Department

MANUFACTURERS HANOVER
The Financial Source.℠ Worldwide.

The Manufacturers Hanover
Financial Digest
Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00208000006990 C 939 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014